**Decision Report - Executive Decision**
Forward Plan Reference: FP/24/04/04
Decision Date – 03 July 2024
Key Decision – No

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# Annual Treasury Year-End Report 2023/24

Executive Member(s): Cllr Liz Leyshon – Deputy Leader of the Council and Lead Member on Resources and Performance
Local Member(s) and Division: All
Lead Officer: Jason Vaughan, Executive Director - Resources & Corporate Services (Section 151 Officer)
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## Summary

1. The report is a summary of the treasury management activity of Somerset Council for the financial year 2023-24, in compliance with the CIPFA Code of Practice and the Local Government Act 2003.

2. The debt portfolio at the start of year was £803.7m, which included £53m of loans between legacy councils. The overall position as at 31st March 2024 was a small reduction to £793.01 million by the end of the year with the average rate paid on debt increasing from 3.45% to 4.26%, mainly due to refinancing short-term borrowing at higher rates.

3. The inherited investment portfolio of £295.75 million from the five legacy councils, was reduced to £192.15 million by the end of the year. The reduction was mainly due to returning money held for NHS Somerset. The average return on investments was 4.80%, slightly below the benchmark rates.

4. The recommendations and reasons for the report: The report recommends that the Executive approves the report as being in compliance with the CIPFA Code of Practice and refers it to Full Council. The reasons for the recommendations

are to meet the statutory requirements and to ensure effective scrutiny of the treasury management strategy and policies.

5. The financial and risk implications of the report: The report does not have any specific financial or risk implications, as it is an outturn report. The risks associated with treasury management are dealt with in the annual strategy and practice documents. All treasury activities were conducted within the prudential limits and with a risk-averse approach.

6. The other implications of the report: The report does not have any implications for equalities, community safety, climate change, health and safety, health and wellbeing, or social value. It states that effective treasury management supports the range of business and service objectives that help to deliver the Somerset County Plan.

**Recommendations**

7. That the Executive approved the report being in compliance with the CIPFA Code of Practice for Treasury Management and recommends it to Full Council at the next available meeting.

**Reasons for recommendations**

8. The Local Government Act 2003 requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services.

9. The Code requires Full Council to receive as a minimum, an annual strategy and plan in advance of the year, a mid-year review, and an annual report after its close. This is the year-end review for the 2023-24 financial year.

**Other options considered**

10. None. The adoption of the Treasury Management year-end review for 2023-24 is a regulatory requirement.

**Links to Council Plan and Medium-Term Financial Plan**

11. Effective Treasury Management provides support to the range of business and service level objectives that help with the delivery of the Council's key priorities within the Council Plan which are:

- a greener, more sustainable Somerset
- a healthy and caring Somerset
- a flourishing and resilient Somerset
- a fairer, ambitious Somerset

**Financial and Risk Implications**

12. Risks associated with Treasury Management are dealt with in the Annual Treasury Management Strategy, Annual Investment Strategy, and Treasury Management Practice (TMPs) documents. The financial implication of Treasury Management activity are reported through the monthly budget monitoring process and the final outturn will be incorporated into the council's annual statement of accounts which will be reported to the Audit Committee.

13. The councils overall financial position is impacted by the level of overall debt and investments that the council has. The cost of debt finance and investment income is reported through the regular monthly budget monitoring reports to the Executive and Scrutiny. In the Medium-Term Financial Plan (MTFP) assessments for future years are made based upon economic and market factors such as the forecast for future Bank of England interest rates. The on-going impact is incorporated within risk score for Strategic Risk ORG0057 – Sustainable MTFP which is currently assessed as being 16.

| | | | | | |
|---|---|---|---|---|---|
| **Likelihood** | **4** | **Impact** | **4** | **Risk Score** | **16** |

14. Arlingclose have been retained as independent Treasury Advisors throughout the period. Officers from the Treasury Management team reported debt and investment positions and performance via comprehensive reports at regular meetings with the Section 151 Officer and/or the Strategic Manager (Pensions Management). During the year Treasury staff have continued to attend courses and seminars provided by Arlingclose and other ad hoc events.

15. MiFID II (Markets in Financial Instruments Directive II) is an EU regulatory framework designed to regulate financial markets and improve protections for investors. MiFID II aims to standardise practices throughout the EU and brings a larger number of firms under the supervision of an EU financial regulator. The Council continues to meet the conditions to opt up to professional status under MiFID II and as a result, will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

## Legal Implications

16. Treasury Management operates within specified legal and regulatory parameters. The Local Government Act 2003 requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services. The Code requires Full Council to receive as a minimum, an annual strategy and plan in advance of the year, a mid-year review, and an annual report after its close. This report fulfils the requirement for a year-end review for the 2023-24 financial year.

17. During the year, all Council treasury management policies, practices, and activities remained compliant with all relevant statutes and guidance, namely DLUHC investment guidance issued under the Local Government Act 2003, the CIPFA Code of Practice for Treasury Management, and the CIPFA Prudential Code. The DLUHC's Guidance on Investments reiterates security and liquidity as the primary objectives of a prudent investment policy. All investments were compliant with guidance issued by DLUHC, with the investment strategy agreed, and activities conducted within the procedures contained in the Treasury Management Practices.

## HR Implications

18. There are no direct HR implications arising from this report. As part of the approach to effectively managing it Treasury Management activities it is important that the council continues to employ suitability qualified and experienced staff.

## Other Implications:

## Equalities Implications

19. There are no direct equalities implications from this report.

## Community Safety Implications

20. There are no direct community safety implications arising from this report.

**Climate Change and Sustainability Implications**

21. There are no direct Climate Change and Sustainability implications arising from this report.

**Health and Safety Implications**

22. There are no direct health and safety implications arising from this report.

**Health and Wellbeing Implications**

23. There are no direct Health and Wellbeing implications arising from this report.

**Social Value**

24. There are no direct Social Value implications arising from this report.

**Scrutiny comments / recommendations**

25. The Audit Committee is the body responsible for ensuring effective scrutiny of the treasury management strategy and policies. They recommended that Full Council approve this report at their meeting of 30th May 2024.

**Background**

26. The Treasury Management Strategy Statement for 2023/24 set out the framework and boundaries for the treasury management activities during the year. This alongside the Prudential Indicators were considered by Audit and approved by Full Council in February 2023. The CIPFA TM Code and the mid-year review was presented to Full Council in December 2023.

27. During the year, all Council treasury management policies, practices, and activities remained compliant with all relevant statutes and guidance, namely DLUHC investment guidance issued under the Local Government Act 2003, the CIPFA Code of Practice for Treasury Management, and the CIPFA Prudential Code.

28. The DLUHC's Guidance on Investments reiterates security and liquidity as the primary objectives of a prudent investment policy. All investments were compliant with guidance issued by the DLUHC, with the investment strategy

agreed, and activities conducted within the procedures contained in the Treasury Management Practices.

29. Appendix A provides details of compliance with the prudential indicators.

**Economic Environment and Background**

30. UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February but was still above the Bank of England's 2% target at the end of the period. The core measure of CPI, i.e. excluding food and energy, also slowed in February to 4.5% from 5.1% in January, a rate that had stubbornly persisted for three consecutive months.

31. The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year GDP only expanded by 0.1% compared to 2022. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with the economy expanding 0.2% in January 2024. Data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

32. Labour market data provided a mixed message for policymakers. Employment and vacancies declined, and unemployment rose to 4.3% (3mth/year) in July 2023. The same month saw the highest annual growth rate of 8.5% for total pay (i.e. including bonuses) and 7.8% for regular pay growth (i.e. excluding bonuses). Thereafter, unemployment began to decline, falling to 3.9% (3mth/year) in January and pay growth also edged lower to 5.6% for total pay and 6.1% for regular pay, but remained above the Bank of England's forecast.

33. Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023. The rate was maintained at 5.25% through to March 2024. The vote at the March MPC meeting was 8-1 in favour of maintaining rates at this level, with the single dissenter preferring to cut rates immediately by 0.25%.

34. Following the March 24 MPC meeting, Arlingclose, the authority's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in H2 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come

sooner than expected, but then more broadly balanced over the medium term. Base rate averaged 5.03% for the year.

35. **Appendix B** provides a summary of the rates during the 2023/24 financial year.

**Debt Management**

36. The opening General Fund Capital Financing Requirement (CFR) is £924.27m and the HRA £182.2m. These figures represent the underlying need to borrow for capital for the new authority. It was expected that further borrowing of £136.7m for the General Fund would be required over the period of the new capital programme. In addition to new borrowing, £203.5m of short-term borrowing and £17.2m of PWLB loans were due to mature during the year.

37. Table 1 below sets out the breakdown of £803.69m borrowing at the start of the year.

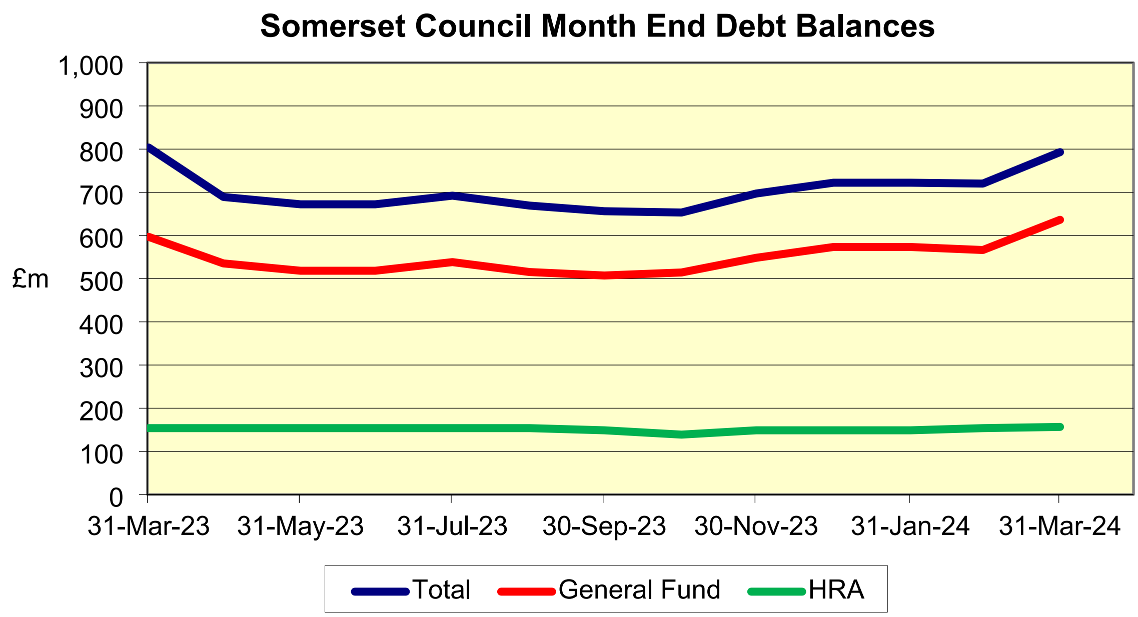
**Table 1 – Legacy Debt Portfolios by predecessor Council 1st April 2023**

| £m | MDC | SDC | SWT | SSDC | SCC | Total |
|---|---|---|---|---|---|---|
| Intra Unitary | 0.00 | 34.00 | 6.00 | 13.00 | 00.0 | **53.00** |
| Local Authority | 0.00 | 10.00 | 78.00 | 118.50 | 0.00 | **206.50** |
| PWLB | 62.79 | 66.35 | 87.50 | 0.00 | 159.05 | **375.69** |
| Fixed rate bank | 0.00 | 0.00 | 3.00 | 0.00 | 57.50 | **60.50** |
| LOBO bank | 0.00 | 0.00 | 0.00 | 0.00 | 108.00 | **108.00** |
| **Total** | **62.79** | **110.35** | **174.50** | **131.50** | **324.55** | **803.69** |

38. **Table 2 – Debt Portfolio movement 1st April 2023 to 31st March 2024**

| General Fund | Balance on 31-03-2023 £m | Debt Matured / Repaid £m | New Borrowing £m | Balance on 31-03-2024 £m | Increase/ Decrease in Borrowing £m |
|---|---|---|---|---|---|
| Intra-Unitary Loans | 53.00 | -53.00 | 0.00 | 0.00 | -53.00 |
| Short Term Borrowing | 191.50 | -213.50 | 118.00 | 96.00 | -95.50 |
| PWLB | 234.84 | -5.00 | 160.00 | 389.84 | 155.00 |
| LOBOs | 108.00 | -15.00 | 0.00 | 93.00 | -15.00 |
| Fixed Rate Loans | 57.50 | 0.00 | 0.00 | 57.50 | 0.00 |
| **Total General Fund** | **644.84** | **-286.50** | **278.00** | **636.34** | **-8.50** |
| **HRA** | | | | | |
| Short Term Borrowing | 15.00 | -15.00 | 0.00 | 0.00 | -15.00 |
| PWLB | 140.85 | -12.19 | 25.00 | 153.66 | 12.81 |
| LOBOs | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Fixed Rate Loans | 3.00 | 0.00 | 0.00 | 3.00 | 0.00 |
| **Total HRA** | **158.85** | **-27.19** | **25.00** | **156.66** | **-2.19** |
| **Total** | **803.69** | **-313.69** | **303.00** | **793.01** | **-10.69** |

39. The Debt Portfolio movement 1st April 2023 to 31st March 2024 is shown graphically below.




40. Table 3 below shows how the debt interest rates over the financial year.

**Table 3 – Summary of Debt Interest changes**

| | 01-04-2023 Rate % | 31-03-2024 Rate % | Increase/ Decrease Rate % |
|---|---|---|---|
| Short Term Borrowing | 2.47 | 4.85 | +2.38 |
| PWLB | 3.42 | 4.02 | +0.60 |
| LOBOs | 4.74 | 4.75 | +0.01 |
| Fixed Rate Loans | 4.70 | 4.70 | 0.00 |
| Total Borrowing | 3.45 | 4.26 | +0.81 |

41. The first key driver for borrowing activity was the refinancing of loans maturing during 2023-24, the majority being loans with Local Authorities as detailed in table 2 above. The second was the detail (timing and amounts) of the disposal of assets within the non-treasury investment portfolio, and any disinvestment of pooled funds. Therefore, debt for the General Fund was taken mainly in shorter periods, from 1 to 3 years. This will help provide sufficient flexibility so that debt can be paid down as and when non-treasury investments are sold, or holdings in strategic pooled funds are liquidated. Secondly, as interest rates are predicted to fall over the next couple of years, it gives the opportunity to refinance maturing debt at a lower rate.

42. As the cost of borrowing was going up in the first half of the year, and cuts were expected in the second half, timing of new debt was taken with regard to

minimising debt interest costs in the year. Initially cash investments were allowed to mature to pay down maturing debt, but after £90m+ was returned to NHS Somerset mid-year, cash balances were minimal, and new debt had to be taken to satisfy cash flow needs.

43. During the year £118m of loans with Local Authorities were either rolled from previous maturities, or new loans taken, all for periods of 1 year or less. As news of our financial emergency came out, few Local Authorities would lend to Somerset. In total, £160m of PWLB debt was taken for the General Fund, £40m in December, £20m in January, and the rest in March. Maturities are spread, but none are later than December 2026. 3 x £5m LOBOs were repaid. After the option to raise the rate was exercised by the lender, Somerset exercised its' option to repay.

44. The HRA repaid loans maturing totalling a further £27.19m and replaced them with PWLB loans to the value of £25m.

45. Whilst overall debt reduced by £10.7m the average rate paid did increase from 3.45% to 4.26% on a portfolio of £793.01m. The rate paid on the PWLB portfolio rose from £3.42% to 4.02%. The average Market Loan rate at 31st March (LOBOs + Barclays, total £153.5m) was 4.75%, rising slightly as loans with lesser rates were repaid. The cost of refinancing short-term debt meant an average of 4.85% at period-end, a rise of 2.38%, albeit on reduced balances.
46. Initial budgeted debt interest for the year for the general fund was £32.1m, meaning that the £22.5m paid in the year is £9.6m under budget.

**Investment Activity**

47. The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

48. Security of capital remained the Council's main investment objective. This was achieved by following the counterparty policy as set out in the Annual Investment Strategy, and by the approval method set out in the Treasury Management Practices. Counterparties having approval for use during the period are listed in **Table 4** below. Those used during the year are denoted with a star.

49. Few Banks have been used during this period, as cash balances have been reduced to pay down maturing debt. Also, Arlingclose had restricted their

maximum duration advice on all bank counterparties to 35 days until 30th January 2024, giving little to no benefit over MMFs and Local Authority rates.

50. We has continuously monitored counterparties, and all ratings of proposed counterparties have been subject to verification on the day, immediately prior to investment. Other indicators considered have been:
- Credit Default Swaps and Government Bond Spreads.
- GDP and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Banking resolution mechanisms for the restructure of failing financial institutions i.e. bail-in.
- Share Price
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.

51. **Table 4 - Approved Counterparties**

| | | | |
|---|---|---|---|
| Bank or Building Society | | Sterling LVNAV Money Market Funds | |
| Australia & NZ Bank | * | Deutsche MMF | * |
| Bank of Scotland | | Invesco Aim MMF | * |
| Bank of Montreal | | Federated Prime MMF | * |
| Bank of Nova Scotia | | Insight MMF | * |
| Barclays Bank Plc | | Aberdeen Standard MMF | * |
| Canadian Imperial Bank of Commerce | | LGIM MMF | * |
| Commonwealth Bank of Australia | | SSGA MMF | * |
| DBS Bank Ltd | * | Aviva MMF | * |
| DZ Bank | | Other Counterparties | |
| HSBC Bank | | Other Local Authorities (Number of Deals) | * (17) |
| Landesbank Hessen- Thuringen | * | Debt Management Office | |

| | | | |
|---|---|---|---|
| Lloyds Bank | * | Strategic Pooled Funds | |
| National Australia Bank | | CCLA Property Fund | * |
| National Bank of Canada | * | RLAM Bond Fund | * |
| National Westminster | * | M&G Bond Fund | * |
| Nationwide BS | | Aegon Diversified Fund | * |
| Nordea Bank | * | CCLA Diversified Fund | * |
| OP Corporate Bank | | Fidelity Equity Fund | * |
| Oversea-Chinese Banking Corporation (Singapore Bank) | | Columbia Threadneedle Bond Fund | * |
| Rabobank | | Ninety-One Diversified Fund | * |
| Royal Bank of Scotland | | Paydon & Rygel Bond Fund | * |
| Santander UK | * | RLAM Short-Term Fund | * |
| Standard Chartered Bank | * | Schroder Equity Fund | * |
| Handelsbanken Plc | | UBS Equity Fund | * |
| Bank or Building Society (Continued) | | | |
| Toronto-Dominion Bank | * | | |
| United Overseas Bank | | | |

**Counterparty Update**

52. In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.

53. There was little movement to ratings that affected the list of approved SC counterparties. S&P revised the UK sovereign outlook to stable and upgraded Barclays Bank to A+. Moody's, and Fitch also revised the UK outlook to stable from negative. Moody's, meanwhile, upgraded the long-term ratings of German

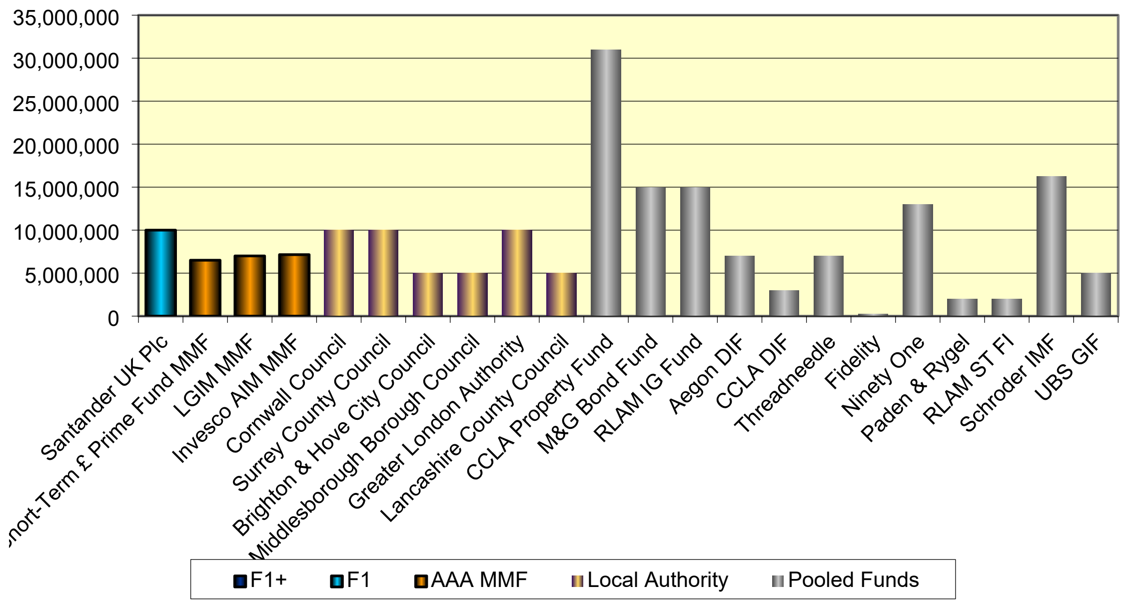
lender Helaba and upgraded or placed on review for an upgrade Australian bank ANZ.

54. Credit default swap prices began the financial year at elevated levels following the fallout from Silicon Valley Bank and collapse/takeover of other lenders. From then the general trend was one of falling prices and UK lenders' CDS ended the period at similar levels to those seen in early 2023.

55. Heightened market volatility is expected to remain a feature, at least in the near term and the Council will continue to monitor and assess credit default swap levels for signs of ongoing credit stress, and, as ever, the institutions and durations on the Council's counterparty list recommended by treasury management advisors Arlingclose remain under constant review.

56. The chart below shows the names of approved counterparties with deposit exposures as at 31st March 2024.

**SC Month End Counterparty Exposure**




## Liquidity

57. In keeping with guidance from DLUHC the Council maintained a sufficient level of liquidity through the use of call accounts, Money Market Funds, and short-term deposits.

58. 210 cash deposits totalling just under £1.39billion were made during the year, mostly placed with Money Market Funds with daily liquidity.

59. SC, in managing an average of approximately £82.9m of money held on behalf of external bodies, has needed to retain more liquidity, as forecasting and timing of Capital expenditure, the return of funds to NHS Somerset, and LEP spending has been difficult. Deposits were kept short in line with Arlingclose advise, and also because debt maturities were repaid, and to cover the possibility of LOBOs calling and being repaid.

**Yield**

60. There were three increases in Bank Rate over the year, from 4.25% to 5.25%. Short-dated cash rates, which had ranged between 4.17% for overnight money, and 4.89% for 12-month money at the beginning of the period, rose by around 1% for overnight maturities and at one point by 1.71% for 12-month maturities, as that rate peaked at 6.6%.

61. At certain points during the summer the market expected base rate to rise to over 6%, but as inflationary worries eased in September, markets paused to reassess, and it was thought that a base rate of 5.25% was at, or at the very least, near the top of the rate cycle. There was another rise in rates in the latter part of the year, as inflation proved stickier than previously expected.

**Cash**

62. As at 31st March cash investment stood at £75.65m averaging just over £135m for the year-to-date. Cash had an average return for the year of 4.83%. The return was 0.20% lower than the average base rate, and 0.16% below the 7-day SONIA rate (a benchmark rate at which Banks will lend to each other). A below benchmark return is practically inevitable in a rapidly rising interest rate environment.

63. A total of just over £6.5m (£5.5m net of that paid to the LEP and external bodies) has been earned in cash interest in year. Cash administration charges and other Treasury Management fees brought in approximately £98k of income in the period.

**<u>Pooled Funds</u>**

64. As at 31st March 2023, combined, the 5 Councils held £116.5m in Pooled Funds. The list below shows the funds, the categories, and the original investment value of each fund.

**Cash Plus Funds**
Payden & Rygel Sterling Reserve Fund - £2m
Royal London Short-Term Fixed Income Enhanced Fund - £2m

**Fixed Income**
Columbia Threadneedle Strategic Bond Fund - £7m
M&G £ Corporate Bond Fund - £15m
RLAM Investment Grade Short Dated Credit Fund - £15m

**<u>Equity</u>**
Fidelity Global enhanced income (Global Equity) - £250,000
Schroder Income Maximiser Fund - £16.25m
UBS Global Income Fund - £5m

**<u>Property</u>**
CCLA Property Fund - £31m

**<u>Multi-Asset</u>**
Aegon Diversified Monthly Income Fund - £7m
CCLA Diversified Income Fund - £3m
Ninety-One Diversified - £13m

2023-24 was characterised by significant volatility in bond markets. Tight labour markets and resilient growth meant that global bond yields rose (i.e. bond prices fell), with falling prices negatively impacting bond fund performance as well as weighing on multi-asset fund returns. November and December saw a turnaround with a significant fall in US and global bond yields (i.e. bond prices rising). The first quarter of 2024 proved more difficult for government bonds as stubborn inflation led fixed income markets to question if the expectation of the number of rate cuts over 2024 and the accompanying fall in yields had been overdone.

65. By contrast, global equities were buoyed by healthy corporate earnings, resilient economic data and moderating inflation and the view central banks had reached the peak of their rate tightening cycles. A number of indices, including

the S&P 500 and Nasdaq, posted record highs. After an initial period of caution due to the likelihood of recession, the UK economy fared better than anticipated with a shallow recession, falling inflation and improved consumer confidence providing support for UK equities.

66. The market background for commercial property improved marginally in 2023 and was more stable, in contrast to the very challenging backdrop of 2022. Low transactional volumes were a constraint on valuations and made prospective sellers and buyers more cautious. Although many sectors lacked momentum, there was growing confidence in the longer-term outlook as occupier demand and rental markets held up. Industrial and retail warehousing sectors remained strong, but the retail and offices sectors remained weak, the latter continuing to be hindered by low occupancy from hybrid working practices.

**Combined**

67. Combined return for the year has been 4.80% on an average balance of £252m. This figure includes approximately £12.4m of cash managed on behalf of the Local Enterprise Partnership (LEP), £10.3m of Earmarked Funds held on behalf of other decision-making bodies, £51.2m held as s256 money for NHS Somerset, and £9.1m of other external bodies (e.g. Exmoor National Park (ENP), and South-West Councils (SWC)). Total investment income was just over £12.1m (£11.1m net of external investors).

68. Initial budgeted income for the year was £13m, meaning that the £11.1m (net of that paid to external bodies) fell below budget. This is due to investment balances reducing to less than budgeted for, although this has allowed less debt to be taken.

69. Figures below highlight Legacy investment portfolios by Council, Table 5, Investment figures and returns for period, Table 6, Balances by type – Table 7, and a breakdown of investment balances by source – Table 8: -

70. **Table 5. Legacy Investment Portfolios by Council 31st March 2023**

| £m | MDC | SDC | SWT | SSDC | SCC | Total |
|---|---:|---:|---:|---:|---:|---:|
| Money Market Funds | 15.20 | 4.40 | 0.00 | 0.00 | 16.75 | **36.35** |
| Notice Bank Accounts | 0.00 | 1.60 | 0.00 | 0.00 | 0.00 | **1.60** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Bank deposits | 5.00 | 0.00 | 0.00 | 0.00 | 70.00 | **75.00** |
| Intra unitary deposits | 5.00 | 0.00 | 0.00 | 0.00 | 48.00 | **53.00** |
| Time Deposits - LAs | 0.00 | 0.00 | 1.30 | 0.00 | 65.00 | **66.30** |
| Strategic Funds* | 0.00 | 31.00 | 17.00 | 23.50 | 45.00 | **116.50** |
| **Total** | **25.20** | **37.00** | **18.30** | **23.50** | **244.75** | **348.75** |

*Strategic Funds are shown at cost.

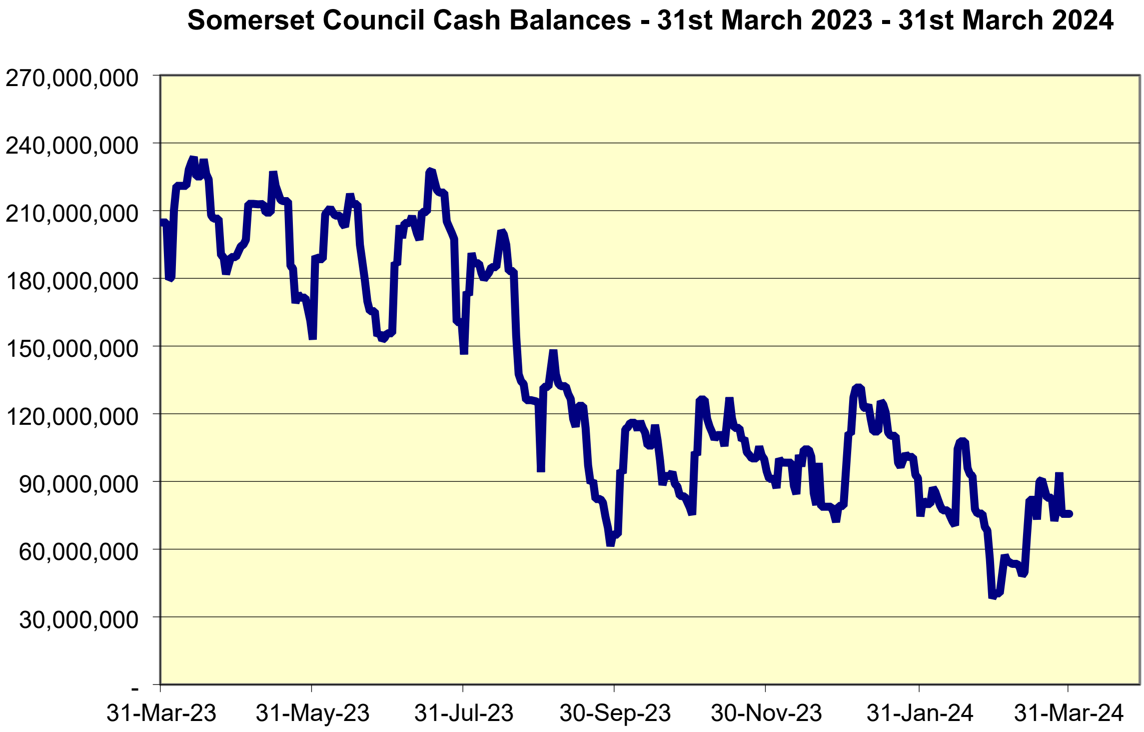
71. On 1st April £53m of Intra-Unitary deposits were effectively quashed, so leaving a balance of £295.75m

72. **Table 6 – Investment figures and returns for period.**

| | **Balance 1 April 2023 £m** | **Rate of Return at 1 April 2023 %** | **Balance as at 31 March 2024 £m** | **Rate of Return at 31 March 2024 %** | **Average Balance 2023-24 £m** | **Average Rate 2023-24 %** |
|---|---|---|---|---|---|---|
| Cash | 179.25 | 3.81* | 75.65 | 6.26 | 135.46 | 4.83 |
| Pooled Funds | 116.50 | 4.89 | 116.50 | 4.52 | 116.50 | 4.77 |
| **Total Lending** | **295.75** | **4.27** | **192.15** | **5.20** | **251.96** | **4.80** |

*Somerset County Council rate

73. Movement in cash balances during the year is shown graphically below.




74. **Table 7 – Investment balances by type**

| | 1 April 2023 £m | 31 March 2024 £m | Change £m |
|---|---:|---:|---:|
| Money Market Funds | 36.35 | 20.65 | -15.70 |
| Bank Call Accounts | 0.00 | 0.00 | 0.00 |
| Bank Notice Accounts | 1.60 | 10.00 | +8.40 |
| Time Deposits – Banks | 75.00 | 0.00 | -75.00 |
| Time Deposits – LAs | 66.30 | 45.00 | -21.30 |
| Pooled Funds | 116.50 | 116.50 | 0.00 |
| **Total Investments** | **295.75** | **192.15** | **-103.60** |

75. **Table 8 – Breakdown of investment balances by source**

| | 01 April 2023 £m | 31 March 2024 £m | Change £m |
|---|---|---|---|
| ENPA/SWC/SCT/P&CCTS | 8.15 | 7.98 | -0.17 |
| LEP | 15.36 | 9.69 | -5.67 |
| Earmarked Funds held on behalf of other decision-making bodies | 10.89 | 10.02 | -0.87 |
| NHS Somerset S256 | 97.74 | 0.00 | -97.74 |
| **Total external** | **132.14** | **27.69** | **-104.45** |
| Somerset Council | 163.61 | 164.46 | +0.85 |
| **Total** | **295.75** | **192.15** | **-103.60** |

**Cash managed on behalf of others.**

76. During 2023-24 SC provided treasury management services to the Police and Crime Commissioner for Avon and Somerset. Funds continue to be lent on a segregated basis, with PCC funds lent in its own name.

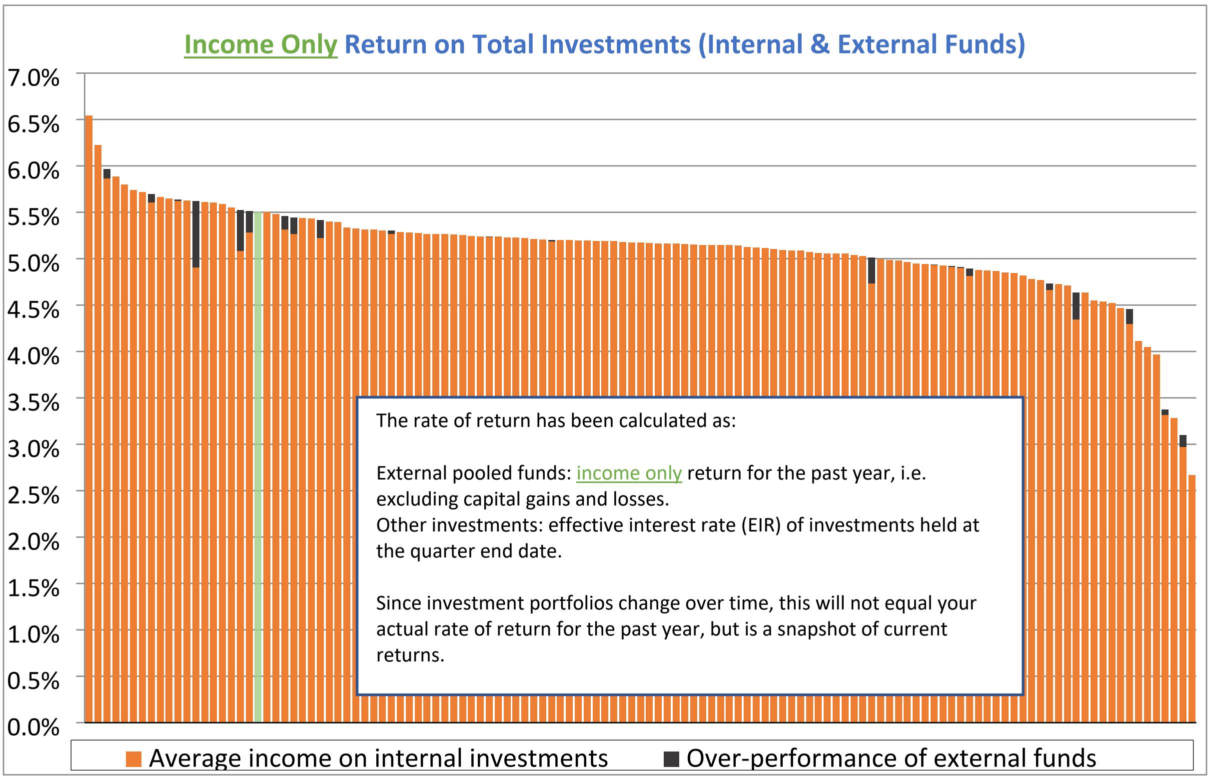
77. SC continues to manage cash on behalf of others, namely Exmoor National Park Authority (ENPA), South-West Councils (SWC), the Society of County Treasurers (SCT)), and the Police & Crime Commissioners Treasurers Society (PACCTS) via service level agreements. These balances were just under £8m at year-end.

78. In addition, during 2023-24, SC was retained to manage the Local Enterprise Partnership (LEP) Growth Deal Grant on behalf of the other Enterprise Partners. An average balance in excess of £12.3m was managed, with a year-end balance of £9.69m.

79. All treasury management activities, including a fee for the management of the LEP money, brought in income of just over £98k during the year.

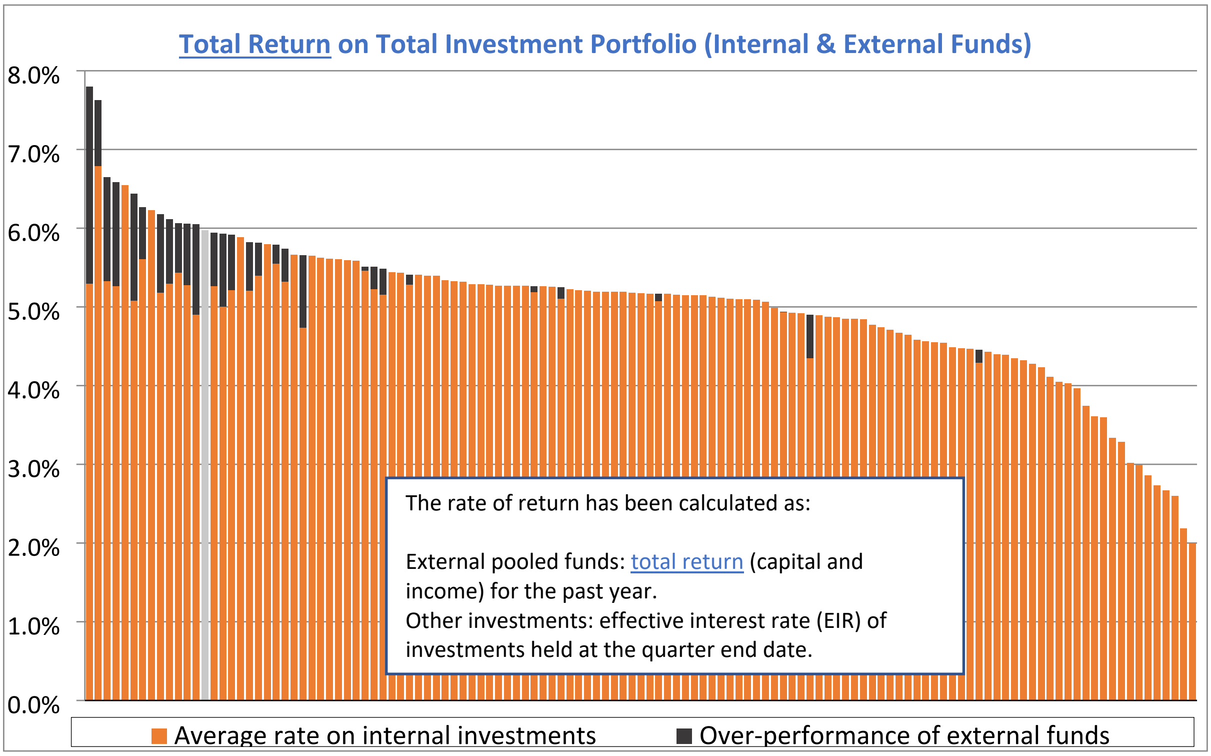
## Performance comparison against other Local Authorities clients of Arlingclose

80. During 2023-24, Somerset Council retained the services of Treasury advisors, Arlingclose. It would therefore seem appropriate to look at the performance compared with other Authorities that use Arlingclose, i.e. that share much of the same investment advice, particularly regarding counterparties.



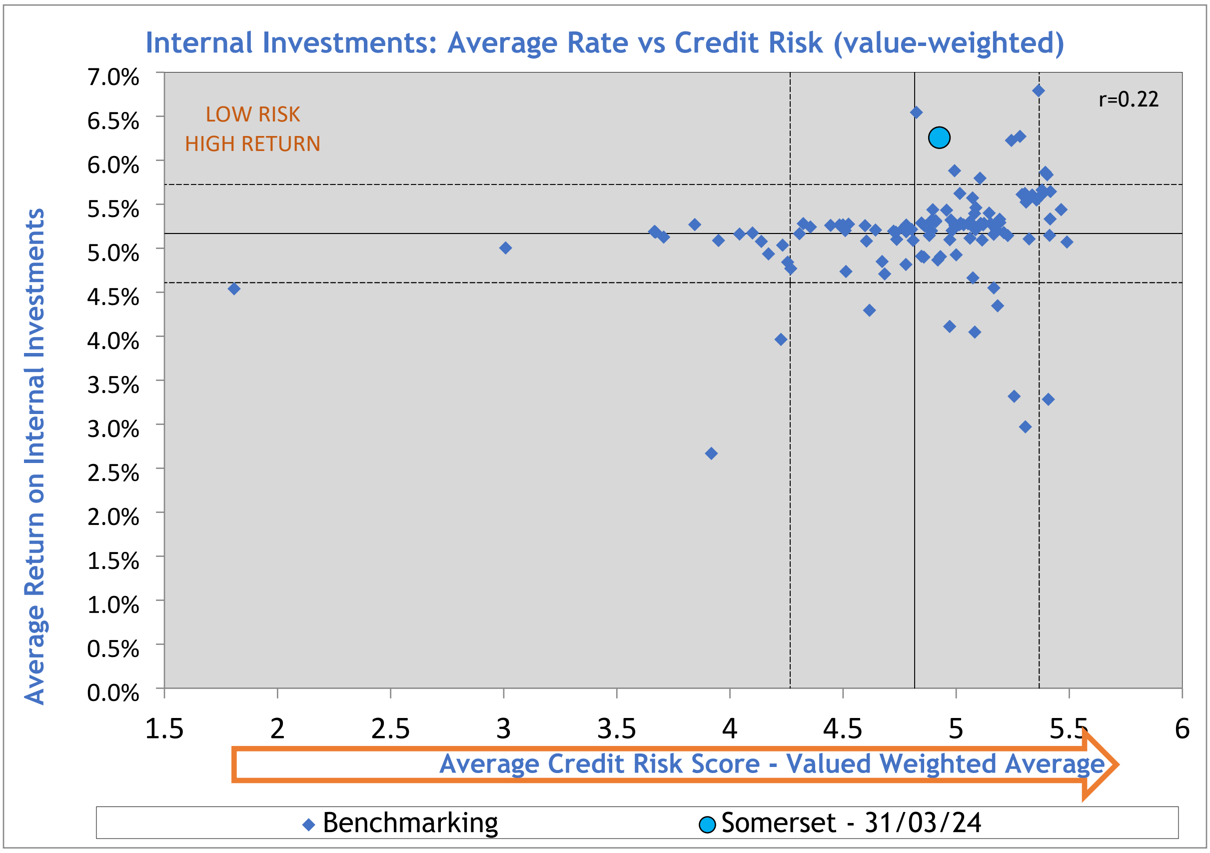

81. Returns as at 31st March 2024 can be seen in the graph above (if in black & white, SC is the bar above the 'e' in average of 'Average income on internal investments' in the graph legend).

82. A total return graph is shown below, with Somerset being directly above the 'v' in the 'Average rate on internal investments' in the graph legend).




83. A comparison of internally managed investments only is included below, showing performance on a returns v credit risk basis.  Note: The Arlingclose report compares quarter-end figures only.

84. This graph shows that Somerset Council has a return above that of the majority of authorities, and an average credit risk score that is just past the average line.




85. The Arlingclose report compares quarter-end figures only, and comparisons can be seen below.

| | **Rate** | | **Balance (£m)** | |
|---|---|---|---|---|
| | **Somerset Council** | **Others** | **Somerset Council** | **Others** |
| June 2023 | 4.61% | 3.68% | 156 | 68 |
| September 2023 | 5.18% | 4.94% | 66 | 66 |
| December 2023 | 5.33% | 5.08% | 79 | 61 |
| March 2024 | 6.26% | 5.17% | 76 | 51 |
| | | | | |
| Average | 5.35% | 4.72% | 94 | 61 |

86. Using this methodology, the performance has been above that of comparators. This has been achieved with an average investment balance of 1.5 times that of the average for the universe.

**Background Papers**

87. Treasury Management Strategy Statement 2023-24 and appendices. These were approved by Full Council prior to the start of the 2023-24 financial year.

**Appendices**

88. Appendix 1 – Compliance & prudential indicators
89. Appendix 2 – Rates during the year

**Report Sign-Off**

| | Officer Name | Date Completed |
|---|---|---|
| Legal & Governance Implications | David Clark | Sent 08/05/2024 |
| Communications | Peter Elliott | Sent 08/05/2024 |
| Finance & Procurement | Nicola Hix | 08/05/2024 |
| Workforce | Dawn Bettridge | 22/05/2024 |
| Asset Management | Oliver Woodhams | 08/05/2024 |
| Executive Director / Senior Manager | Jason Vaughan | 08/05/2024 |
| Strategy & Performance | Sara Cretney | Sent 08/05/2024 |
| Executive Lead Member | Councillor Liz Leyshon | 13/05/2024 |
| **Consulted:** | | |
| Local Division Members | | |
| Opposition Spokesperson | Councillor Mandy Chilcott | 30/05/2024 |
| Audit Chair | Councillor Mike Hewitson | 30/05/2024 |
| Scrutiny Chair | Councillor Bob Filmer | 10/05/2024 |

**APPENDIX A - Compliance & Prudential Indicators**

All treasury management activities undertaken during the year have complied fully with the CIPFA Code of Practice and the Councils approved Treasury Management Strategy.

The council has continuously proactively assessed and implemented mitigation for the risks that have materialised in the new investment environment. Controls/procedures are constantly being assessed and introduced/adapted where needed and embedded into practices to further mitigate risks to SC investment and borrowing portfolios.

SC has complied with its Prudential Indicators for 2023-24. Those indicators agreed by Full Council and actual figures as at 31st March are included below:

| | **2023-24 £m** | **As at 31-03 £m** |
|---|---|---|
| Authorised limit (borrowing only) | 1,039.4 | 801.0 |
| Operational boundary (borrowing only) | 1,004.4 | 801.0 |

Maturity structure of borrowing

| | **Upper Limit** | **Lower Limit** | **As at 31-03-24** |
|---|---|---|---|
| Under 12 months | 50% | 15% | 28.42% |
| >12 months and within 24 months | 25% | 0% | 17.74% |
| >24 months and within 5 years | 25% | 5% | 13.99% |
| >5 years and within 10 years | 25% | 0% | 8.13% |
| >10 years and within 20 years | 25% | 0% | 2.60% |
| >20 years and within 30 years | 20% | 0% | 6.32% |
| >30 years and within 40 years | 30% | 10% | 17.36% |
| >40 years and within 50 years | 15% | 0% | 5.07% |
| 50 years and above | 5% | 0% | 0.37% |

| | **2023-24 £m** | **As at 31-03 £m** |
|---|---|---|
| Prudential Limit for principal sums invested for periods longer than 365 days | 160 | 116.5 |

### Credit Risk Indicator

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its investment portfolio.  This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.  Unrated investments are assigned a score based on their perceived risk (in conjunction with Arlingclose) and will be calculated quarterly.

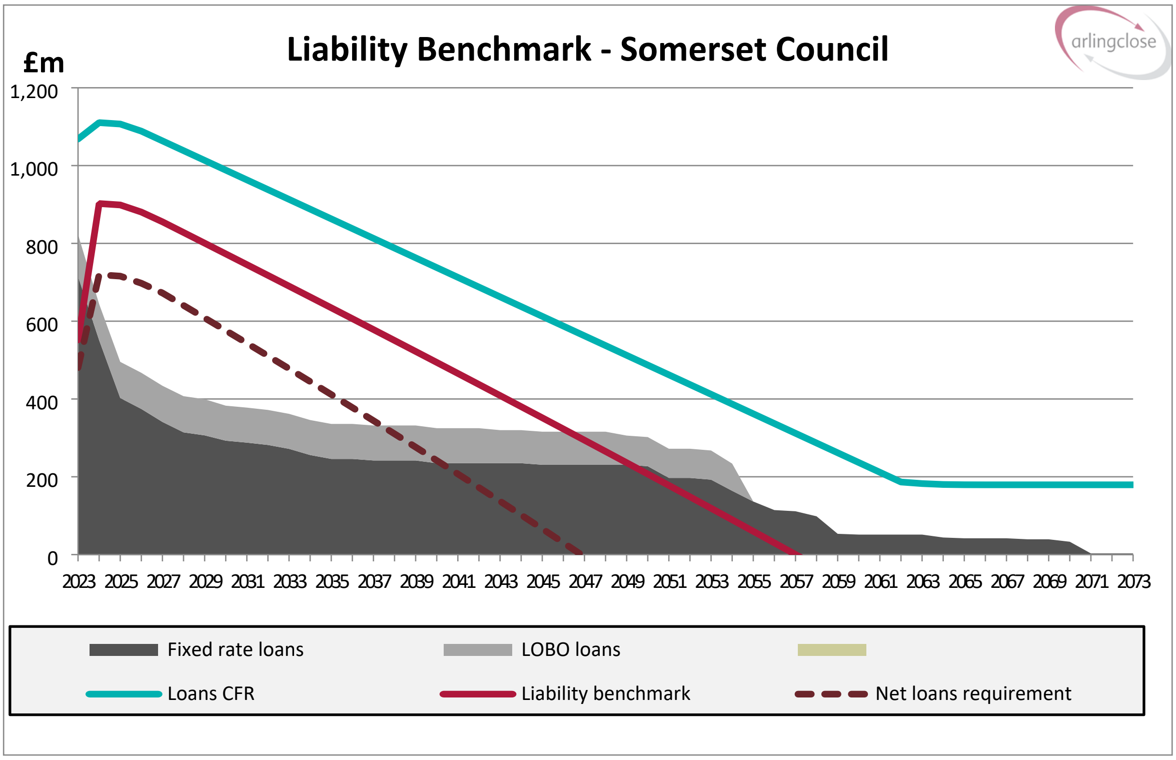
| Credit risk indicator (Number to be below target) | Target | Actual |
|---|---|---|
| Portfolio average credit rating (score) | A (6) | A+ (4.93) |

### Liability Benchmark

This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing.

The concept is that the chart below allows a comparison of current borrowing against the need to borrow, looking at both the amount (on the y axis) and the term (on the x axis).

The graph clearly shows there is a need to borrow quite significant sums out to a period of 12 or so years.  All borrowing has been taken within the limits and timeframe of the liability benchmark.


Liability Benchmark - Somerset Council
arlingclose
£m
1,200
1,000
800
600
400
200
0
2023 2025 2027 2029 2031 2033 2035 2037 2039 2041 2043 2045 2047 2049 2051 2053 2055 2057 2059 2061 2063 2065 2067 2069 2071 2073
Fixed rate loans
LOBO loans
Loans CFR
Liability benchmark
Net loans requirement

## APPENDIX B – Rates during the year

### Money Market Data and PWLB Rates

The average low and high rates correspond to the rates during the financial year-to-date, rather than those in the tables below.

**Table 1: Bank Rate, Money Market Rates -SONIA (Sterling Overnight Interbank Rates - BID)**

| Date | Bank Rate | O/N SONIA | 7-day SONIA | 1-month SONIA | 3-month SONIA | 6-month SONIA | 12-month SONIA |
|---|---|---|---|---|---|---|---|
| 01/04/2023 | 4.25 | 4.17 | 4.20 | 4.11 | 4.43 | 4.59 | 4.89 |
| 30/04/2023 | 4.25 | 4.17 | 4.20 | 4.37 | 4.70 | 4.93 | 5.17 |
| 31/05/2023 | 4.50 | 4.42 | 4.45 | 4.54 | 4.95 | 5.21 | 5.56 |
| 30/06/2023 | 5.00 | 4.90 | 4.91 | 5.02 | 5.42 | 5.90 | 6.38 |
| 31/07/2023 | 5.00 | 4.91 | 5.10 | 5.27 | 5.48 | 5.80 | 6.17 |
| 31/08/2023 | 5.25 | 5.17 | 5.18 | 5.31 | 5.52 | 5.82 | 6.05 |
| 30/09/2023 | 5.25 | 5.19 | 5.19 | 5.22 | 5.51 | 5.63 | 5.77 |
| 31/10/2023 | 5.25 | 5.13 | 5.18 | 5.20 | 5.43 | 5.53 | 5.62 |
| 30/11/2023 | 5.25 | 5.04 | 5.14 | 5.33 | 5.31 | 5.40 | 5.49 |
| 31/12/2023 | 5.25 | 5.12 | 5.14 | 5.18 | 5.23 | 5.26 | 5.06 |
| 31/01/2024 | 5.25 | 5.04 | 5.14 | 5.19 | 5.28 | 5.24 | 5.11 |
| 29/02/2024 | 5.25 | 5.20 | 5.15 | 5.23 | 5.24 | 5.28 | 5.25 |
| 31/03/2024 | 5.25 | 5.19 | 5.22 | 5.21 | 5.18 | 5.14 | 5.11 |
| | | | | | | | |
| Minimum | 4.25 | 4.06 | 4.20 | 4.11 | 4.39 | 4.53 | 4.86 |
| Maximum | 5.25 | 5.24 | 5.35 | 5.49 | 5.59 | 5.95 | 6.60 |
| Average | 5.03 | 4.93 | 4.96 | 5.03 | 5.23 | 5.40 | 5.55 |
| Spread | 1.00 | 1.18 | 1.15 | 1.38 | 1.20 | 1.42 | 1.74 |

**Table 2: PWLB Borrowing Rates – Fixed Rate, Equal Instalment of Principal (EIP) Loans**

| Change Date | Notice No | 4½-5 yrs | 9½-10 yrs | 19½-20 yrs | 29½-30 yrs | 39½-40 yrs | 49½-50 yrs |
|---|---|---|---|---|---|---|---|
| 01/04/2023 | 128/23 | 4.74 | 4.50 | 4.54 | 4.78 | 4.48 | 4.89 |
| 30/04/2023 | 163/23 | 4.94 | 4.70 | 4.74 | 4.98 | 5.09 | 5.10 |
| 31/05/2023 | 203/23 | 5.45 | 5.20 | 5.16 | 5.37 | 5.48 | 5.49 |
| 30/06/2023 | 247/23 | 6.24 | 5.84 | 5.45 | 5.52 | 5.56 | 5.53 |
| 31/07/2023 | 289/23 | 5.85 | 5.53 | 5.34 | 5.48 | 5.55 | 5.53 |
| 31/08/2023 | 333/23 | 5.81 | 5.50 | 5.38 | 5.56 | 5.64 | 5.64 |
| 30/09/2023 | 375/23 | 5.63 | 5.39 | 5.47 | 5.72 | 5.85 | 5.87 |
| 31/10/2023 | 417/23 | 5.51 | 5.32 | 5.51 | 5.77 | 5.90 | 5.92 |
| 30/11/2023 | 461/23 | 5.33 | 5.04 | 5.18 | 5.47 | 5.60 | 5.62 |
| 31/12/2023 | 496/23 | 4.74 | 4.35 | 4.55 | 4.88 | 5.04 | 5.07 |
| 31/01/2024 | 044/24 | 5.08 | 4.76 | 4.95 | 5.29 | 5.45 | 5.49 |
| 29/02/2024 | 086/24 | 5.44 | 5.17 | 5.25 | 5.50 | 5.64 | 5.67 |
| 31/03/2024 | 126/24 | 5.16 | 4.84 | 4.96 | 5.24 | 5.38 | 5.42 |
| | | | | | | | |
| | Low | 4.53 | 4.30 | 4.41 | 4.66 | 4.78 | 4.78 |
| | High | 6.42 | 6.06 | 5.75 | 6.02 | 6.14 | 6.16 |
| | Average | 5.44 | 5.15 | 5.18 | 5.41 | 5.52 | 5.53 |
| | Spread | 1.87 | 1.76 | 1.34 | 1.36 | 1.36 | 1.38 |
| | | | | | | | |

**Table 3: PWLB Borrowing Rates – Fixed Rate, Maturity Loans**

| Change Date | Notice No | 4½-5 yrs | 9½-10 yrs | 19½-20 yrs | 29½-30 yrs | 39½-40 yrs | 49½-50 yrs |
|---|---|---|---|---|---|---|---|
| 01/04/2023 | 128/23 | 4.53 | 4.53 | 4.89 | 4.85 | 4.72 | 4.60 |
| 30/04/2023 | 163/23 | 4.73 | 4.72 | 5.09 | 5.07 | 4.95 | 4.84 |
| 31/05/2023 | 203/23 | 5.21 | 5.15 | 5.48 | 5.47 | 5.39 | 5.29 |
| 30/06/2023 | 247/23 | 5.91 | 5.45 | 5.56 | 5.45 | 5.28 | 5.15 |
| 31/07/2023 | 289/23 | 5.59 | 5.33 | 5.55 | 5.49 | 5.37 | 5.25 |
| 31/08/2023 | 333/23 | 5.55 | 5.38 | 5.64 | 5.60 | 5.47 | 5.33 |
| 30/09/2023 | 373/23 | 5.42 | 5.45 | 5.83 | 5.84 | 5.74 | 5.61 |
| 31/10/2023 | 417/23 | 5.34 | 5.49 | 5.89 | 5.90 | 5.80 | 5.68 |
| 30/11/2023 | 461/23 | 5.07 | 5.16 | 5.60 | 5.60 | 5.50 | 5.35 |
| 31/12/2023 | 496/23 | 4.39 | 4.57 | 5.10 | 5.11 | 5.02 | 4.87 |
| 31/01/2024 | 044/24 | 4.79 | 4.93 | 5.45 | 5.49 | 5.41 | 5.27 |
| 29/02/2024 | 086/24 | 5.20 | 5.24 | 5.64 | 5.65 | 5.58 | 5.44 |
| 31/03/2024 | 126/24 | 4.88 | 4.49 | 5.38 | 5.41 | 5.34 | 5.21 |
| | | | | | | | |
| | Low | 4.33 | 4.40 | 4.78 | 4.73 | 4.59 | 4.46 |
| | High | 6.13 | 5.73 | 6.14 | 6.14 | 6.05 | 5.93 |
| | Average | 5.19 | 5.16 | 5.52 | 5.50 | 5.40 | 5.27 |
| | Spread | 1.80 | 1.33 | 1.36 | 1.41 | 1.46 | 1.47 |

## Movements in PWLB rates (April 2023 - March 2024)